

Internationalization of Capital

Concept: Internationalization of Capital

Author: Tony Porter , McMaster University

Date Entered: 2005-03-01

Description Capital has a variety of meanings, but usually refers to the value of a business after its liabilities (what it owes) are subtracted from its assets. Capital also refers to the ownership of this value, which can take the form of shares, also called stocks or equity. In some businesses the capital can be owned by a single individual, but in many large corporations shares are traded in stock exchanges and are owned by thousands of shareholders, most of whom exercise no control over the firm. The internationalization of capital has been closely associated with globalization. While some have seen this internationalization as enhancing individual autonomy by providing more opportunities for investors and borrowers, critics have instead seen it as increasing the opportunities of those who are already wealthy and powerful, and constricting the opportunities for the average citizen, who can be exposed to the financial instability or loss of jobs that may come with cross-border movements of capital.

Different social theorists such as Karl Marx (1818-1883) and Max Weber (1864-1920), and many others who have followed them, have seen capital as a defining feature of the capitalist societies that emerged in Europe after the Middle Ages and subsequently spread around the world. For Marx capitalism was shaped by the struggle between the owners of capital, which he saw as a social class, and other social classes, especially wage workers. The *Manifesto of the Communist Party*, which he published with Friedrich Engels in 1848, states that the owners of capital have through their "exploitation of the world market given a cosmopolitan character to production and consumption in every country???In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes." They traced this internationalization of capital to the inherent tendency of capitalists to expand capitalist relationships and production and the commercialization of objects that are increasingly bought and sold in markets.

This internationalization of capital in the nineteenth century involved some firms that operated in more than one country. They were the forerunners of the multinational corporations that are so prominent today. When a firm controls operations in a foreign country this is called foreign direct investment. Such foreign investments were evident throughout the first half of the twentieth century, as with Ford, which was manufacturing and selling cars around the world by the 1920s. These multinational corporations became less dependent on their home economic policy and regulation than other large companies. This trend has continued as foreign direct investment has increased over time. In its *World Investment Report 2005*

(Annex Table B3), the United Nations Conference on Trade and Development has estimated that inward foreign direct investment stocks increased from 10.6 percent of gross domestic product in 1990 to 21.7 percent today.

Beginning in the 1980s, a new type of internationalization of capital began to be prominent: the globalization of trading of shares. This globalization took a number of forms, such as the trading of shares of foreign corporations in national stock exchanges. For instance, between 1985 and 2001 foreign holdings of US stocks increased their share of total US market capitalization from 5.9 percent to 11.5 percent and US holdings of foreign stocks increased from 1.9 percent to 10.3 percent, as reported by the Securities Industry Association in their *Fact Book* (2002, 48 and 80).

Many factors contributed to this growth in the globalization of trading of shares, including new communications technologies, the growth of widely recognized globally active firms, links among firms and officials responsible for trading shares, and the growth of pension and mutual funds with a greater capacity than individual investors to search for worldwide investment opportunities. Developing country capital markets became especially important during the 1990s, often stimulated by the selling of shares of newly privatized enterprises previously controlled by governments. The average citizen has become more involved in share ownership in some countries (especially the United States), but even in those countries share ownership remains highly concentrated in the hands of the wealthy.

Supporters of the internationalization of capital have argued that it stimulates growth in countries that previously lacked access to capital and provides new investment opportunities for citizens in countries that export capital. However, the growth in global trading of shares, when combined with the trading of other types of financial instruments such as bonds and derivatives, has raised serious concerns about its impact on global financial stability. Global financial crises in the 1990s that began in Mexico in 1994 and East Asia in 1997 were linked to volatile cross-border capital flows. Critics have also noted that the ease with which investors could move capital from one country to another also seemed to give them a powerful threat with which they could induce governments to follow their preferred policies, even if these clashed with other policy priorities, such as funding social programs. Many critics have called for a tax on short-term cross-border capital flows (called a "Tobin tax") to reduce such problems. Some, echoing Marx's concerns in an earlier period, see the internationalization of capital as a central feature of a global capitalism in which values other than the maximization of profit have suffered.

Work Cited: **Securities Industry Association**. 2002. *Fact book*. (accessed 23 February 2006)

UNCTAD (United Nations Conference on Trade and Development).

2005. *World investment report*. Geneva: UNCTAD.

This is a pre-print version of **Internationalization of Capital** by **Tony Porter** generated from the *Globalization and Autonomy Online Compendium*. The electronic original is available at http://www.globalautonomy.ca/global1/glossary_entry.jsp?id=CO.0058.